



# Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

## Responsibility Postponed: 2002-03 Budget Act

September 12, 2002

### OVERVIEW

*Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Legislative Changes</b>	<b>Vetoed</b>	<b>Budget Total</b>
<b>Net General Fund</b>	\$76,497,832	\$443,292	-\$219,406	\$76,721,718
<b>Special Funds</b>	19,468,452	-99,021	-15,542	19,353,889
<b>Bond Funds</b>	2,945,924	-120,689	-13,000	2,812,235
<b>Federal Funds</b>	49,911,675	895,427	-372,397	50,434,705
<b>Total</b>	\$148,823,883	\$1,119,009	-\$620,345	\$149,322,547

### STOP GAP SOLUTIONS

The 2002-03 Budget Act and related legislation addressed a two-year General Fund shortfall which the Department of Finance estimated at \$23.6 billion. The "solutions" adopted were as follows:

- Program Reductions (\$7,458 million)
- Tobacco Settlement Securitization (\$4,500 million)
- Loans (\$2,028 million)
- Deferrals of Education Disbursements (1 month) (\$1,728 million)
- Fund Shifts (\$1,328 million)
- Net Operating Loss (NOL) Deferral (2 year) (\$1,200 million)
- Debt Restructuring (\$1,083 million)
- Federal Tax Conformity/Tax Compliance (\$1,081 million)
- Federal Funding Increases (\$1,081 million)
- Fund Transfers (\$904 million)
- Other Accelerations & Transfers (\$681 million)
- Stock Options/Bonuses Withholding (\$400 million)
- Teacher Tax Credit One-Year Suspension (\$170 million)

Over two-thirds of these "solutions" come from tax increases, loans, and one-time accounting gimmicks. Even the termed "program reductions" consist of over \$2.5 billion in deferrals and postponements. As a result, this budget's "solutions" set the stage for major fiscal problems in the future.

## **\$19 BILLION SHORTFALL LOOMS**

The table below displays our estimate of the budget shortfall that California is likely to face next year. As the table shows, the 2002-03 Budget Act purports to leave the state with a razor-thin \$1 billion reserve. In reality, the budget includes unrealistic assumptions regarding the receipt of new federal funds and of the savings associated with the proposed "golden handshake" for state employees. In addition, the Controller reports that cash receipts into the General Fund in the four months since the DOF published its last revenue projection had fallen short by \$900 million. On an annualized basis, this would suggest a revenue shortfall of \$2.7 billion. When these factors are taken into account, the "reserve" vanishes and is replaced by a \$3.7 billion deficit.

In response to a request from the Senate Republican Caucus in July, the LAO estimated that the budget before the Legislature at that time would result in a \$9.8 billion operating deficit in 2003-04. The Budget Act of 2002-03 as finally approved by the Legislature, included a different mix of revenues and expenditures, which we estimate will add an additional \$700 million to the 2003-04 deficit. Finally, the revenue shortfall in the current year presages a similar shortfall in 2003-04.

<b>2002-03 Budget Act Reserve</b>	<b>\$1.0</b>
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### **2002-03 Budget Act Threats:**

#### Expenditures

Unrealistic federal funds assumptions	-\$1.1
Unrealistic savings from "golden handshake"	-0.3

#### Revenues

Shortfall based on first four months of receipts	-2.7
Prior-Year Bank and Corporation Tax overestimate	-0.6

<b>Total Threats</b>	<b>-\$4.7</b>
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<b>2002-03 Adjusted Reserve</b>	<b>-\$3.7</b>
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### **2003-04 Operating Deficit**

Projection based on AB 425 -- LAO, July 9, 2002	-\$9.8
Adjustment for final Budget Act	-0.7
Shortfall based on first four months of cash receipts	-2.7

<b>Total 2003-04 Deficit</b>	<b>-\$13.2</b>
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<b>Establish a 3 percent Reserve for 2003-04</b>	<b>- \$2.5</b>
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<b>Total 2-year Budget Shortfall, 2003-04</b>	<b>-\$19.4</b>
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***When all of these factors are taken in account, the total two-year shortfall for the next budget is likely to be at least \$19 billion.*** The Budget Act of 2002-03 exhausts much of the State's capacity to borrow, transfer funds, and shift financial responsibility. Thus, the solutions for the shortfall of 2003-04 will have to be more realistic, fundamental, and permanent.

The 2002-03 Budget is discussed in detail below.

# TAXES

## MAJOR REVENUE AND TAX INCREASES IN THE BUDGET

The budget includes several major tax and revenue increase proposals totaling \$2.4 billion in 2002-03 and \$815 million more in 2003-04, for a total increase of \$3.2 billion. These include the following:

- **2-Year Suspension of NOL Carryover Deduction** - Under this proposal, taxpayers would not be able to deduct any carryover losses for two years (tax years 2002 and 2003), but would be able to deduct these losses beginning in tax year 2004. A similar temporary suspension was enacted in the early 1990s, with businesses allowed to extend the expiration date of their existing Net Operating Losses (NOLs) for an additional two years. Fiscal Impact: \$1.2 billion in 2002-03; \$800 million gain in 2003-04. The Conference Committee revised the Governor's proposal by adopting trailer bill language increasing the NOL credit from 65 percent to 80 percent starting January 1, 2004. The final version adopted would make the NOL credit 100% starting January 2004. **Total Tax Increase: \$2 billion.**
- **Federal Conformity on Tax Treatment of Bad Debts for Banks** - The reserve method of accounting for bad debts allows a taxpayer to take a deduction for debts expected to be uncollectible and therefore worthless in the future. In 1986, the federal government stopped allowing large banks (defined as those with an average adjusted basis of all assets greater than \$500 million) to use the reserve method of accounting for bad debts to determine their bad debt deduction for federal tax purposes. Since 1986, large banks have been allowed only to deduct the debts that actually become worthless during the taxable year. This proposal would conform California law with federal law and not allow large banks to deduct bad debts until they actually become worthless. Fiscal Impact: \$285 million in 2002-03; \$15 million in 2003-04. **Total Tax Increase: \$300 million.**
- **Suspend Teacher Tax Credit** - This proposal would suspend, for one year, the credit teacher's currently receive for their service. Fiscal Impact: \$170 million in 2002-03. **Total Tax Increase: \$170 million.**
- **Stock Option Withholding** - Requires that an employer may withhold on supplemental wages at an optional rate of 6 percent in lieu of withholding the amount specified in the withholding tables provided by the FTB under the Administration of Franchise and Income Tax Law (AFITL). Defines supplemental wages to include: commissions, sales awards, stock options and back pay including retroactive wage increases. Increases the rate of withholding to 9.3 percent for stock options and bonus payments. **One Time Revenue Increase: \$400 million.**
- **Real Estate Withholding** - Extends the 3 1/3 percent withholding requirement for transfers of California real property to California residents. Individuals, whether residents or nonresidents, would be treated the same. Creates exemptions instead of waivers from the withholding requirements for transactions involving like-kind exchanges and involuntary conversions for individuals. Does not apply withholding to principal residences. Allows individuals to elect to compute and remit the withholding as payments are received rather than on the total sales price when there is an installment sale. **One Time Revenue Increase: \$225 million.**
- **Collection of delinquent income and sales tax** - Grants the FTB and the Board of Equalization the temporary authority to forgive interest, penalties and fees in exchange for payment of certain "high risk collection accounts" involving income tax and sales tax. Requires that in order to participate, taxpayers would have to agree to make all tax payments by June 30, 2004. **One-time revenue increase of \$145 million.**

The table below summarizes the budget tax package impact over the next two fiscal years.

(Dollars in thousands)

<b>MAJOR TAX / REVENUE INCREASES IN THE BUDGET</b>			
<b>Provision</b>	<b>2002-03</b>	<b>2003-04</b>	<b>Total</b>
NOL	\$1,200,000	\$800,000	\$2,000,000
Bank Bad Debt	\$280,000	\$15,000	\$295,000
Suspend Teacher Tax Credit	\$170,000	---	\$170,000
Stock Option Withholding	\$400,000	*	\$400,000
Real Estate Withholding	\$225,000	*	\$225,000
Delinquent Taxes	\$145,000	---	\$145,000
<b>Total</b>	<b>\$2,420,000</b>	<b>\$815,000</b>	<b>\$3,235,000</b>

### Subcommittee 1 (Education)

Consultants: Roger Mackensen, Therese Tran

*Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Legislative Changes</b>	<b>Vetoed</b>	<b>Budget Total</b>
<b>General Fund</b>	\$38,882,006	-\$617,089	-\$661	\$38,264,256
<b>Special Funds</b>	824,833	-400	---	824,433
<b>Bond Funds</b>	1,279,539	-230	---	1,279,309
<b>Federal Funds</b>	12,104,275	-11,932	-\$2,710	12,089,633
<b>Total</b>	\$53,090,653	-\$629,651	-\$146,571	\$52,314,431

## K-12 EDUCATION

### Proposition 98 Overview

The budget includes \$46.3 billion (\$31.6 billion General Fund) in constitutionally-mandated Prop. 98 funding for K-12 schools and community colleges for 2002-03. This represents a \$1.2 billion (or three percent) increase over the 2001 budget. The Governor vetoed \$143.3 million in Prop. 98 funding, which is required to be spent on education programs at a future date.

**Budget Pays 2001-02 Bills With 2002-03 Funding** - As noted above, Prop. 98 minimum spending increased \$1.2 billion over the current year. The budget uses most of this increase to pay for obligations incurred in the *current year*. While some call this a mere deferral, in effect the budget is using "new" income to pay old debts. The resulting opportunity cost means \$1.2 billion *less* for program improvement and increased flexibility for schools in the budget year.

**Arcane Shift Saves Prior Year General Fund Dollars at Expense of Schools** - The budget takes \$503 million in unexpended 2000-01 funding that had been proposed for expenditure in the 2002-03 and shifts the funding back to the 2001-02, reducing the Prop. 98 funding level. This somewhat arcane action has the effect of reducing K-12 expenditures in the current year while freeing up "real" General Fund dollars. Unfortunately, this funding, which had been earmarked for expenditure on instructional materials, school libraries, and science lab equipment is not fully restored using budget-year dollars. Thus, the \$183.5 million for school libraries that schools have been receiving in recent years has been slashed to just \$32.7 million for both programs.

**Despite the Cuts to Local Schools, the Budget Expands State Bureaucracy** - While schools across the state are cutting staff and canceling programs due to the cuts, the budget adds 30 new staff and \$17.9 million (federal funds) for the State Department of Education (SDE).

**The Budget Squanders Opportunities Offered by President Bush's Increased Federal Funding** - The federal No Child Left Behind Act championed by President Bush provides an increase of \$738 million for California. Some of the more significant appropriations of this funding are as follows:

- \$131.1 million for the new federal Reading First Program directed for pupils in grades K-3, pursuant to state legislation to be enacted.
- \$297.3 million for Title I Grants. Of this amount, \$29 million would be spent on school improvement and intervention programs, pursuant to legislation.
- \$109.2 million to enhance teacher quality. The budget places first call on this funding to mitigate costs of class size reduction programs.
- \$118.7 million in federal special education funding is utilized to offset state special education program growth and COLA costs. While the federal government this year significantly increased special education funding to help reduce special education costs at the local level, the budget passes only \$8.4 million through to locals, using most of it instead to pay for state costs.

**The Budget Abandons Promise of School Accountability** - The budget virtually abandons the 1999 legislation establishing a rigorous statewide school accountability program. The original accountability legislation required low-performing schools to meet their academic growth target or show "significant improvement" after two years of receiving \$200 per pupil improvement grants. Recently, however, the State Board of Education defined "significant improvement" as any increase (even one point) in *either* of the two funded years (ignoring any decrease, even if greater than the improvement). Now that some 50 schools will soon face the sanctions of the original law, the budget proposes that these failing schools develop yet another improvement plan. Six million dollars is provided to fund "corrective action plans," pursuant to legislation. The Governor and Legislature appear to have abandoned the concept of "improvement or else" for "funding failure for as long as it takes." Related adjustments include:

- Eliminating the \$157 million in funds for awards to schools that have met or exceeded their Academic Performance Index targets. \$77 million in 2000-01 funds will be spent in the 2002-03.
- Increasing to \$217 million funds for the flawed High Priority Schools program enacted last year. This program, which has only provided planning grants thus far, weakens the accountability program and increases funding for failing schools. Moreover, the provision of planning grants creates out-year cost pressures.

**Revenue Limit and Categorical Program COLA** - State law requires a COLA for K-12 programs of 1.66 percent in 2002-03. The budget proposes a 2.0 percent COLA at a cost of \$817 million, \$139 million more than called for in statute.

**Other Significant Adjustments** - The budget makes numerous other expenditure adjustments. Listed below are some of the more significant adjustments based on dollar amounts or policy implications:

- The budget cuts funding for textbooks \$22.8 million, from \$422.8 million in 2001-02 to \$400 million in 2002-03.
- The Certificated Staff Performance Awards program is zeroed-out. The Budget Act of 2001 had provided \$100 million for the awards.
- \$8 million is cut from the Secondary Schools Reading Program, which is eliminated.
- The education budget trailer bill provides \$406 million for equalization, commencing in 2003-04.

## **Child Care Reform on Hold**

The January budget proposed a major reform to California's subsidized child care system that would have required a co-payment, as well as increased the number of child care slots. However, the reform has been put on hold due to dissension among child care advocacy groups. Thus, the current child care system will be retained with no policy changes. The budget includes total state and federal funding of approximately \$3.1 billion for child care.

**Stage 3 Child Care Moves Towards Entitlement** - California's subsidized child care consists of three components identified as Stages 1, 2, and 3. Stages 1 and 2 provide child care to families currently on CalWORKs, and those who are transitioning off CalWORKs, respectively. Stage 3, however, serves families that have left CalWORKs but are still below a specified income level. This last Stage of child care has historically been funded at the discretion of the Administration and the Legislature. In other words, unlike other entitlement programs, it is not mandatory that the caseload growth be fully funded. For the first time, due to extensive pressure from the child care advocacy groups, the budget provided full funding for caseload growth last year. Funds were redirected from one-time Prop. 98 savings for this purpose. Again this year, the budget includes full funding for Stage 3 caseload growth at an increased cost of \$104 million, of which over \$85 million is Prop. 98 money. There are two concerns with the current child care policy. One, the redirection of Prop. 98 money for child care reduces the amount of funds available for other K-14 education programs. Two, by fully funding Stage 3 child care, California is moving towards making this an entitlement program.

## **HIGHER EDUCATION**

### **California Community Colleges**

The budget for the California Community Colleges represents another shell game. In order to meet the Prop. 98 guarantee, \$116 million in unspecified funds in 2001-02 will be shifted to 2002-03.

**Budget Continues to Underfund Enrollment Growth** - Although student enrollment in community colleges could grow by over 4 percent next year, the budget provides funding for only 3 percent of that growth. The community colleges indicate that, combined with unfunded growth in the current year, the funding deficit could run as high as \$150 million. When aggregated with other proposed program cuts of about \$90 million, course availability and core services for approximately 40,000 students could be severely effected—all this during a time of slow economic development when unemployed individuals typically turn to community colleges to enhance their education and job skills.

**Cost-of-Living Adjustment Increased to 2 Percent for Categorical Programs** - The budget increases the COLA for categorical programs from the Governor's proposed 1.66 percent to 2 percent, the same as the COLA for apportionment. This action increases funding for community colleges by \$692,000 more than required by statutes.

**Language to Authorize Carryover of Funds** - Current law requires the community colleges to relinquish unexpended funds to the Prop. 98 Reversion Account. These funds may then be reallocated in the following year for a variety of Prop. 98 programs, including K-12 education and child care. Language was adopted that would essentially reserve unexpended community college funds so that they can be used by the community colleges in the following year. Although the language would limit Legislative discretion over Reversion Account funds, it would guarantee that those funds be utilized for higher education.

Select augmentations and reductions to the community colleges are discussed below:

**Augmentations:**

- **Instructional Equipment** - \$34 million increase over the current year to purchase and replace computers, laboratory supplies, visual projectors, and other equipment which would aid in classroom instruction.
- **Scheduled Maintenance** - \$32 million increase over the current year for facilities maintenance and repair.

**Reductions:**

- **Matriculation** - \$22 million reduction from student counseling, placement, and transfer services.
- **Technology Infrastructure** - \$20 million reduction from computer purchase/replacement and other information technology upgrades and services.
- **Economic Development Programs** - \$9 million reduction from services that link students to prospective employers.
- **CalWORKs Services** - \$29 million reduction from services to CalWORKs recipients (i.e., English as a Second Language (ESL) courses, vocational training, etc.). The Administration proposes to require a 1-to-1 local fund match. The community colleges request flexibility in the type of funding that would be countable towards the match.
- **Student Success Program** - \$10 million reduction from special student services, such as disabled student internship development, English as a Second Language (ESL) tutoring, etc.
- **Teacher Reading Development** - \$5 million reduction from a program that encourages community college students to become teachers by allowing them to tutor school-age children in math and reading.
- **Faculty and Staff Development** – Elimination of funding for training and continuing education for faculty and staff.

### **University of California**

The budget provides \$3.1 billion for the University of California (UC). For the second year in a row, the budget would continue the Governor's abrogation of the 2001 Higher Education Partnership, which had provided for a 5 percent base funding increase in return for improved accountability. The budget provides only a 1.5 percent base increase (\$47.5 million). The budget approves \$7.2 million in additional student fees associated with a 10 percent non-resident student fee increase. Other adjustments include \$77.6 million for enrollment growth of 8,597 students (5 percent), including increased funding for summer enrollment at the Davis campus. **Additionally, the budget includes \$55 million for outreach -- \$10 million more than in the current year.**

**University of California Cuts** - The budget would make the following cuts to UC:

- \$51 million to zero-out funding for UC teacher training institutes.
- \$32.1 million cut from research funding, leaving \$288.7 million. The budget also continues to fund the \$5.5 million UC Labor Institute.
- \$29 million cut from information technology, instructional equipment, library materials, and deferred maintenance.
- \$17 million from UC-administered student financial aid.

## **California State University**

The budget provides \$2.6 billion General Fund for the California State University (CSU) in 2002-03. As with UC, the budget would continue the Governor's abrogation of the Higher Education Partnership, providing only a 1.5 percent base increase (\$37.7 million). The budget approves \$16.9 million in additional student fees associated with the Governor's CSU Board of Trustees' recent action to raise non-resident student fees 15 percent. Other adjustments include \$98.7 million for enrollment growth of 15,278 students (5 percent), including increased funding for summer enrollment at the Chico campus.

**California State University Cuts** - The budget would make the following cuts to CSU:

- \$43 million from information technology, instructional equipment, library materials, and deferred maintenance.
- \$21 million to convert the Governor's Teaching Fellowships into a loan forgiveness program.
- \$14.5 million from CSU-administered student financial aid.
- \$12.5 million to eliminate the Education Technology Professional Development Program.

## **OTHER EDUCATION ISSUES**

**California Postsecondary Education Commission** - The Governor's May Revision proposed cutting \$2.8 million General Fund and 40 positions from CPEC, leaving 3 positions to provide direct support to the commission. The Budget Act restores CPEC to \$2.2 million in funding and about 29 positions.

**California Student Aid Commission** - The Student Aid Commission administers the Cal Grant and other student aid programs totaling about \$667 million. This funding reflects the following cuts:

- \$10 million from current year Cal Grant Entitlement and Competitive awards, for a total funding level of \$175 million in 2001-02 and \$398 million in 2002-03.

**California State Library** - The budget provides \$31.5 million for the Public Library Foundation (PLF), which provides funding to local libraries. This reduces PLF funding from \$56.9 million in 2000-01 – a 43-percent cut.

## **HIGHER EDUCATION CAPITAL OUTLAY**

The budget authorizes expenditures of \$849.7 million for higher education capital projects from a variety of bond sources, as follows:

- \$151.8 million in General Obligation bonds and \$171.2 million in reappropriated lease revenue bonds for the University of California and \$831,000 for the Hastings College of the Law.
- \$289.9 million in General Obligation bonds for the California State University.
- \$236 million for the California Community Colleges.



## Subcommittee 2 (Resources, Environmental Protection, Judiciary, Transportation, & Energy)

Consultants: Alex Alanis, Dave Harper, Sharon Bishop, Curtiss Cobb

### *Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Legislative Changes</b>	<b>Veto</b>	<b>Budget Total</b>
<b>General Fund</b>	\$2,940,455	\$47,355	-\$29,939	\$2,957,871
<b>Special Funds</b>	10,209,626	-56,787	-13,900	10,138,939
<b>Bond Funds</b>	1,614,325	-120,941	-13,000	1,480,384
<b>Federal Funds</b>	4,833,082	-2,588	---	4,830,494
<b>Total</b>	\$19,597,488	-\$132,961	-\$56,839	\$19,407,688

## TRANSPORTATION

The budget includes the following loans to the General Fund: 1) \$1.045 billion from the Traffic Congestion Relief Fund (TCRF), 2) \$173 million from the State Highway Account (SHA), and 3) \$6 million from the Aeronautics Account. The \$173 million SHA loan to the General Fund is allowed pursuant to Article 19, Section 6, subsection (b) (2) of the California Constitution, which allows this type of loan if General Fund revenue in the May Revision of the current fiscal year is less than the aggregate amount of General Fund revenue in the previous fiscal year. These loans will result in approximately \$3.724 billion being taken from transportation and used for shoring up the budget deficit in the past two fiscal years.

According to the Administration, no projects will be delayed as a consequence of these loans. However, that is open to interpretation. According to the California Transportation Commission, the TCRF refinancing plan (AB 438, 2001) meant a loss of \$1.116 billion in front-loaded capacity in the 2002 State Transportation Improvement Program (STIP). The 2002 STIP will spend only 10 percent of the \$3.84 billion in the first two years of the five-year proposal. This new borrowing proposal would exacerbate an already delayed transportation financing program.

The budget includes a \$94.9 million loan from the Public Transportation Account to the TCRF to pay for public transportation projects. This action relieves the cost pressure to the TCRF as a result of loans to the General Fund. The budget also includes a reduction of \$12.2 million to local transit agencies for operations and other purposes, as a consequence of lower diesel fuel revenue forecasts.

**Caltrans** - The budget contains an amended version of the Governor's May Revision proposal to reduce \$38 million and 550 positions at Caltrans to reflect the reduced workload in the first two years of the back-loaded 2002 STIP. Instead, the budget would cut half that amount from the Caltrans bureaucracy and the remainder would be cut from contracting-out position authority, and allow Finance to re-establish positions or contract out services in order to meet capitol outlay support needs. Also, the budget contains a proposal to establish a revolving loan program to provide flexible, short-term financing to public entities and public/private partnerships for the delivery of transportation projects. The loan program will be capitalized with an initial appropriation of \$3 million (federal funds), which requires trailer bill language for enactment.

The budget includes \$2.4 million (SHA) to be spent on developing an information technology integration plan, which would eventually implement a new construction management, land management system, and contract payment system.

**High Speed Rail Authority** - The budget includes \$6.55 million (SHA) to complete the preliminary environmental impact report and statement on a high-speed rail project that will ultimately cost the state over \$30 billion General Fund and will do nothing to relieve daily commuter gridlock.

**Department of Motor Vehicles** - The budget contains several **fee increases** to shore up the Motor Vehicle Account (MVA), which will experience several cost pressures, and would be implemented by the passage of trailer bill language. The fee increases are as follows:

- \$25 million from increasing late registration fees in 2002-03, which will increase to \$50 million in 2003-04.
- \$2 million from increasing filing fees on appealing DUI suspensions in 2002-03, which is expected to increase to \$4 million in 2003-04.
- \$40 million from increasing the cost to insurers and others that request driving record information.
- \$4 million in 2003-04 from the imposition of a \$5 fee to retake a driving license test.
- An increase from \$2 to \$4 per record for information provided to insurers and others who request driver's license and vehicle registration information.

**These fees amount to an indirect tax of \$76 million in 2002-03 and \$98 million in 2003-04.**

## **RESOURCES AND ENVIRONMENTAL PROTECTION**

**Proposition 40** - The budget includes \$501.5 million for several Proposition 40 projects, such as urban parks, Murray-Hayden competitive park grants, river parkways, acquisition of property for six conservancies, and air pollution reduction projects.

**Conservation Corps** - The budget reduces \$7.2 million General Fund from the Training and Work Program. Total corps membership would be reduced from 2,150 to 1,725, however, no corps members will be released from the program early. The reduction would be accomplished through normal attrition.

**Department of Forestry and Fire Protection (CDF)** - The budget cuts \$5.8 million from CDF's budget for timber harvest plan reviews. Also, the budget contains \$75 million General Fund for emergency fire suppression, which is much less than the \$139 million annual average the Department of Forestry projected from 1999-2000 through 2001-2002. The budget additionally contains \$2.3 million General Fund redirected from the Department of Food and Agriculture's Red Imported Fire Ants Program to continue CDF's effort to combat Sudden Oak Death Syndrome.

**Wildlife Conservation Board** - The budget cuts \$14 million General Fund scheduled for acquisition of sensitive habitat related to the University of Merced Grasslands Project. This reduction will be offset by a Proposition 40 allocation.

**CALFED** - The budget reduces \$10.3 million General Fund for various CALFED programs, including Water Use Efficiency, Levees, Watershed, Drinking Water Quality, and Science Programs. However, these reductions will be offset by Proposition 13 (2000 Water Bond) allocation.

**Department of Pesticide Regulation** - The budget includes a reduction of \$3.4 million General Fund and 23 positions from food tolerance assessments, total maximum daily load, toxic air contaminant standards, and pest management grant programs. The budget also restores \$500,000 for local assistance to County Agriculture Commissioners.

**State Water Resources Control Board** - The budget raises the statutory cap on annual waste discharge permit fees from \$10,000 to \$20,000, and adjusts the cap annually to reflect changes in the Consumer Price Index. The fee would result in a revenue increase of \$16.9 million, which would offset a corresponding amount shifted to the General Fund. Additionally, the budget includes a reduction of \$6.2 million General Fund in stormwater contracts related to non-filer search activities.

**Department of Toxic Substance Control** - The budget includes a \$15 million loan from the Hazardous Waste Control Account (HWCA) to the General Fund, which is scheduled to be paid back by June 30, 2006. The Governor's January 10 Budget projected a \$4.7 million fund balance in the HWCA, which is \$10.3 million less than what is needed for this loan. The May Revision anticipates an increase in revenues coming into the HWCA. If these revenues do not materialize, the Administration might have to cut funding for state operations for DTSC, which receives 86 percent of the funds in this account.

**Air Resources Board** - The budget includes a \$6.8 million MVA reversion from unencumbered funds from the zero emissions vehicle program. The Governor's Budget, among other cuts, reduced funding for these programs. However, because of the condition of the General Fund and MVA, the budget reverts unspent funds for these programs.

**Department of Conservation** - The budget includes a loan of \$218 million from the Beverage Container Recycling Fund (BCRF) to the General Fund to be paid back by June 30, 2009. This loan would leave a fund balance of \$25 million. The BCRF receives its revenue from surcharges on bottles and fees paid by manufacturers of bottles. This action uses revenue generated from special taxes for general purposes.

## **ENERGY**

### **Energy Resources Conservation and Development Commission**

**Electricity Surcharge Increase** - Budget Trailer Bill AB 3000 includes authorizing the Commission to increase the Energy Resource Program Account (ERPA) Surcharge by 50%, not to exceed three-tenths mill (\$0.0003) per kilowatt-hour.

- Additional Revenue from this increase is \$11.2 million in 2002-03 and \$22.4 million in out years.
- Replaces \$5.722 million General Fund support for power plant siting and other activities within the Commission.
- This act is in lieu of the Governor's power plant siting fee proposal.

**Loans and Transfer to General Fund** - The budget includes the following loans and transfers to the General Fund.

- Loan \$150 million from the Renewable Resources Trust Fund.
- Transfer \$7 million in interest earnings from the Renewable Resources Trust Fund.
- Transfer \$7 million in interest earnings from the Public Interest Research, Development, and Demonstration Fund.

This transfer results in a \$1.6 million fund deficit leading to unallocated spending reductions.

**Dairy Waste-to-Energy** - The budget includes earmarking \$5 million (ERPA) to support Dairy Waste-to-Energy programs.

**Geothermal Grant Reduction** - The budget includes reducing the Geothermal Resources Development Account by \$566,000 for Geothermal Grants.

### **Department of Water Resources: California Energy Resources Scheduling**

**FERC Representation** - The Budget Bill includes \$500,000 (Electric Power Fund) for representation before the Federal Energy Regulatory Commission.

## **Public Utilities Commission**

**Transfers to General Fund** - The budget transfers \$27.2 million from High-Cost Fund A and \$250.9 million from High-Cost Fund B to the General Fund.

- These funds subsidize telecommunication programs in hard-to-reach and rural areas.
- Transfer is possible because of over-collection of surcharge from ratepayers.
- The PUC is restricted from raising the surcharge rate because of these transfers.

**Personnel Changes** - The budget includes \$3.05 million (Public Utilities Reimbursement Account) for 39.5 new staff positions and \$6.785 million (PURA) for consultant services.

New staff positions include:

- 19.5 positions for power plant performance reviews authorized by AB 28XX (Migden) and SB 39XX (Burton) (\$2.1 million PURA).
- 10 positions for DWR procurement costs rate setting proceedings (\$950,000 PURA).

New consultant services include:

- Financial and legal consultants to assist with PG&E bankruptcy (\$5.785 million PURA).
- 1 Bond Counsel for consulting on PUC's necessary functions to facilitate energy bonds (\$1 million PURA).

Deletes 1 staff attorney position associated with the defunct Green Team (\$93,000 PURA).

**Office of Ratepayer Advocates (ORA)** - Budget Trailer Bill AB 3000 eliminates the statutory requirement that the ORA be separately identified in the PUC's budget and replaces it with annual report language on the workload and staffing resources of ORA. The budget makes all Telecommunications Branch staff positions 2-year limited term.

**Public Utilities Reimbursement Account** - The budget makes a rate increase likely because it adopts all proposed augmentations and places tremendous stress on the account.

## **California Consumer Power & Conservation Finance Authority**

**Transfer Operating Loan** - Budget Trailer Bill AB 3000 includes using a loan from the Renewable Resource Trust Fund (RRTF) to repay the General Fund Startup Loan (\$8.9 million) and schedules repayment to RRTF by June 30, 2004, including a scheduled payment of \$1 million in the budget year.

**Contracting Authority** - Budget Trailer Bill AB 3000 deletes the provision in existing law that exempts the CPA from applicable Government Code and Public Contract Code sections for contracting services.

## **Electricity Oversight Board**

**Eliminate Generation Maintenance Program** - The budget eliminates the Generation Maintenance Program and associated staff positions (\$730,000 General Fund).

### Subcommittee 3 (Health, Human Services, Labor & Veterans' Affairs)

Consultants: Sharon Bishop, Therese Tran

*Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Legislative Changes</b>	<b>Vetoed</b>	<b>Budget Total</b>
<b>General Fund</b>	\$21,200,982	\$880,745	-\$181,200	\$21,900,527
<b>Special Funds</b>	1,466,974	10,284	-1,642	1,475,616
<b>Bond Funds</b>	1,901	---	---	1,901
<b>Federal Funds</b>	31,525,210	909,947	-369,687	32,065,470
<b>Total</b>	\$54,195,067	\$1,800,976	-\$552,529	\$55,443,514

## HEALTH AND HUMAN SERVICES OVERVIEW

The budget includes General Fund expenditures of \$21.9 billion in Health and Human Services, an increase of \$699 million, or 3.3 percent over the amount proposed by the Governor. These increases are primarily in the health services area and reflect restoration of various cuts proposed by the Governor in programs such as Medi-Cal, County Administration, and SSI/SSP. These, and other select topics, are discussed below. When compared to current year expenditure of \$22.1 billion, General Fund spending there has been virtually no reduction in this area.

## HEALTH

**Tobacco Securitization** - The budget proposes to securitize \$4.5 billion of the state share of the Master Tobacco Settlement Agreement. California is slated to receive \$25 billion through 2025, which will be shared between the state and local governments. The state share is approximately \$475 million annually, and the budget securitization plan will consume virtually 100 percent of these revenues for the next 22 years, leaving nothing to be applied toward rising health care costs. The budget for fiscal year 2002-03 spends \$533 million (Revenues and Prior-Year Carryover) in Tobacco Settlement Funds, and it is likely that the Administration will backfill with General Fund dollars to maintain the following programs in the future:

- \$229.9 million Healthy Families Program
- \$4.3 million Access for Infants and Mothers (AIM)
- \$206.1 million Medi-Cal Section 1931 (b) expansion
- \$10.6 million Medi-Cal Breast and Cervical Cancer Treatment expansion
- \$11.1 million State-Only Breast and Cervical Cancer Treatment
- \$50.7 million Child Health and Disability Prevention (CHDP) Program
- \$20 million Prostate Cancer Treatment

### Health Services

**Cuts to Medi-Cal Provider Reimbursement Rates** - The budget adopts savings of \$100 million (\$50 million General Fund) by reducing the provider rates. The following areas are exempted: California Children's Services (CCS), home health agencies, shift nursing, non-emergency medical transportation, and family planning physician services. Republicans fought hard for the minimal rate increases of the past two years in an effort to improve access to care for eligible recipients, and these cuts further strain our fragile health care system. It should be noted, however, that the budget does include \$24.8 million (Proposition 99 funds) to continue the rate adjustment for emergency medical physicians who provide services under the California Healthcare for Indigent Persons Program.

**Pharmacy Reimbursements Slashed and Increased Rebates and Discounts Sought from Drug Manufacturers and Sellers of Medical Supplies** - The budget adopts over \$200 million in General Fund savings by taking the following key actions:

- Medi-Cal Contract Drugs - General Fund savings of \$159.1 million. Trailer bill language was adopted to: (1) permanently establish the Medi-Cal drug formulary, which restricts the availability of drugs; (2) permit a “preferred” list of prior-authorized drugs; (3) prevent manufacturers from retroactively lowering the price of drugs; (4) require drug manufacturers to pay a state rebate on AIDS and cancer drugs; (5) allow the state to negotiate rebates under the AIDS Drug Assistance Program; and (6) allow the state to contract or enteral (nutritional) formulae and clinical laboratory services.
- Pharmacy and Labs - General Fund savings of \$35.6 million. Trailer bill language was adopted to: (1) temporarily rescind current and planned dispensing fee increases of \$0.25 and \$0.15 per prescription; (2) cap reimbursement for all drugs (brand name and generic) at Average Wholesale Price minus 10 percent; (3) require the state to establish a Maximum Allowable Ingredient Cost for drugs and update the list every two months; and (4) limit payments for enteral (nutritional) formulae to acquisition cost plus a percentage mark-up.
- Medical Supplies - General Fund savings of at least \$11.5 million. Trailer bill language was adopted to: (1) require the state to establish utilization controls for medical supply products and to set the maximum allowable product cost for each product; (2) modify the reimbursement rate for incontinence supplies; and (3) limit the reimbursement for diabetic testing supplies to the cost of the items plus a professional fee.

**State Increases the DSH Administrative “Rake-Off”** - The budget reflects savings of \$55 million General Fund by increasing the Disproportionate Share Hospital (DSH) administrative fee from \$29.8 million to \$85 million. This is a direct reduction of funding to private and public hospitals.

**Significantly Cuts County Funding** – The budget cuts \$29 million in state funding for counties to administer the Medi-Cal Program, which represents an approximate 6 percent reduction. The budget also cuts \$5,439,000 General Fund from the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program because the Governor plans to proceed administratively to implement a county share-of-cost for this program even though the Legislature rejected such a proposal.

**Accelerated Enrollment** - When families apply for health coverage at the Single Point-of-Entry, those persons being referred to Medi-Cal will be provided with immediate temporary coverage under the Medi-Cal fee-for-service system pending eligibility determination. The budget includes \$10.8 million (\$5.4 million General Fund) to cover two months of services provided to persons who otherwise would not have been eligible. The budget also includes an increase of \$552,000 (\$275,000 General Fund) to forward Single Point-of-Entry applications to County Welfare Departments and to make various systems modifications.

**Supplemental Wage Rate Adjustment** - The budget includes \$42 million (\$21 million General Fund) to provide increased funding for providers that have a collective bargaining agreement or contract to increase salaries, wages, or benefits for certain classifications of staff.

**Child Health Disability Prevention (CHDP) Program Retained Even Though It Duplicates Other Health Coverage Programs** - The budget includes \$48.2 million General Fund to retain the CHDP Program and another \$3.9 million General Fund to provide a new “gateway” from CHDP to Medi-Cal or Healthy Families. In January, the Governor proposed eliminating this program because the age and income limits for eligibility are virtually the same as for Healthy Families and Medi-Cal. The primary exception is that CHDP provides services to undocumented immigrant children. The budget also includes \$2.7 million (\$836,000 General Fund) to develop an internet pre-enrollment application,

and pre-enrolled children will be immediately eligible for a CHDP health assessment and presumptively eligible for up to two months of comprehensive medical care provided through either Medi-Cal or the Healthy Families Program. The budget includes an additional increase of \$4.4 million (\$2.1 million General Fund) to provide the two months of comprehensive coverage and full-scope services for some children receiving Medi-Cal services through the “gateway” process.

**Budget Rejects a Number of the Governor’s Proposed Reductions to, or Eliminations of, Programs** - The following are key examples:

- Medi-Cal Optional Benefits - The Governor had proposed cuts of \$526 million (\$263 million General Fund) and the elimination of the following optional Medi-Cal benefits: chiropractic, podiatry, independent rehabilitation centers, acupuncture, occupational therapy, psychology, medical supplies, and adult dental services. The budget includes full funding for these optional services, with the exception of some limits placed on dental cleanings and exams.
- Co-Payments on Medi-Cal Recipients - The Governor had proposed to charge co-payments for various Medi-Cal services. The budget rejects this proposal, which increases the budget by \$61.2 million (\$30.6 million General Fund).
- Defer Expansion of the Medi-Cal Program - The Governor had proposed rescinding the planned expansion of the Section 1931 (b) Medi-Cal program to include applicants earning up to 100 percent of the federal poverty level. The budget fully funds this expansion, at a cost of \$184.2 million (\$92.1 million General Fund).
- Reinstate the Quarterly Status Report - Last year, the quarterly status report requirement was eliminated, which resulted in beneficiaries being provided 12 months of continuous eligibility. The budget rejects the Governor’s proposal to reinstate the quarterly report; therefore, more individuals will retain eligibility for the Medi-Cal Program who would otherwise be disenrolled. As a result, the budget has been increased by \$310.8 million (\$155.4 million General Fund).

**“Express Lane” Eligibility** - The Governor vetoed \$12 million (\$6 million General Fund) to implement “Express Lane” eligibility effective July 1, 2002. However, trailer bill language was adopted to allow the release of school lunch information to the Medi-Cal Program for administrative purposes. The language adopted sets the stage for additional agencies or entities to determine eligibility on an accelerated basis and effectively limits the school districts’ ability to share information with the federal Immigration and Naturalization Service or Social Security Administration. Under current law, information can be shared to verify applicant statements regarding eligibility. This language also provides for presumptive eligibility, by allowing the Department of Health Services to implement the program by accepting the School Lunch Program application as the basis of a preliminary Medi-Cal eligibility determination.

**Response to Bioterrorist Threats** - The budget provides \$25.4 million in increased federal funds to the Department of Health Services to operate the new Emergency Preparedness Office. The Emergency Supplemental Appropriations for Recovery and Response to Terrorist Attacks on the U.S. Act (Public Law 107-117 of 2002) will provide California with about \$100 million in increased federal funds to address both local and state concerns regarding the threat of bioterrorism. Funds are provided as follows:

- \$60.8 million from the federal Centers for Disease Control (CDC) to the State Department of Health Services (DHS);
- \$24.6 million from the CDC to Los Angeles County, upon federal approval of the County’s application;
- \$10 million from the federal Health Resources and Services Administration (HRSA) to the DHS. These funds will be passed through to the Emergency Medical Services Authority to enhance emergency medical systems;
- \$3.7 million from HRSA to Los Angeles County; and

- \$2.2 million from the federal Department of Health and Human Services (DHHS) to certain metropolitan areas.

**Trauma Centers** - The budget includes \$20 million General Fund to enhance the state's trauma care system. It is expected that most of these funds will go to Los Angeles County.

**Augments the AIDS Drug Assistance Program (ADAP)** - The budget reflects increased federal funds of \$6 million and new rebates from drug manufacturers of \$6.2 million. These additional funds are used to offset \$10.9 million General Fund, for a net program increase of \$1.3 million.

**Increases Fees for the Childhood Lead Poisoning Prevention Program** - Manufacturers of lead products will be assessed an additional \$7.2 million to pay for increased state and local oversight and enforcement activities.

**Reduced Funding for Cancer Research** - The budget includes \$12.5 million General Fund to continue the cancer research program, previously funded at \$25 million. The budget assumes the balance of funding will come from private sources. Budget trailer bill language was also adopted to allow multi-year research contracts and to limit the University of California's (UC's) administrative costs (federal indirect overhead) to 25 percent. UC does most of this research.

**Proposition 99 (Tobacco Tax) -- Revenue Decline** - Due to a projected decline in Proposition 99 resources, the budget proposes the following cuts:

- \$23 million from the Media Campaign;
- \$3.5 million from the Breast Cancer Early Detection Program;
- \$4.8 million from the County Medical Services Program; and
- Pro-rated reductions in Cancer Control programs, County Health Services programs, Comprehensive Perinatal Outreach, and Children's Hospitals.

**Restores Rural Demonstration Projects** - The budget includes \$4.6 million (\$1 million General Fund; \$683,000 Tobacco Settlement Funds; and \$2.9 million federal funds) to restore partial funding cut by the Administration for rural demonstration projects. For the past three fiscal years, the annual appropriation has been \$6 million (\$2 million General Fund). Funds have been used to extend community clinic hours, expand telemedicine applications, provide bilingual specialty health care services, provide mobile medical and dental services, provide health education and nutrition counseling, and for some rate enhancements.

**Increased Funding for the Department of Managed Health Care** - Although the Department of Managed Health Care is entirely funded with Special Funds, the budget includes significant increases to cover the costs of its activities and programs. Some of the increases include: \$500,000 to expand HMO Quality Report Card from the Office of Patient Advocate; \$234,000 and 4 positions to increase financial examinations of specialized plans; \$210,000 and 3 positions for the Financial Solvency Standards Board; \$850,000 and 14 positions for the HMO Call/Help Center; \$447,000 and 7 positions for the Office of Enforcement.

### **Developmental Disabilities Services**

**Lack of Federal Certification Requires a General Fund "Backfill"** - The budget includes an increase of \$15.3 million General Fund to backfill for a loss of federal certification at the Porterville and Canyon Springs developmental centers.

**Higher Health Benefit Costs for State Janitors** - The budget includes an increase of \$8.8 million (\$5 million General Fund) to cover the higher costs of janitorial health benefits.



**Budget Increase for Autism** - The budget includes an increase of \$17.2 million for this program.

**Rejects Governor's Proposal for Statewide Purchase of Services Standards** - The Governor had assumed \$52 million in savings if Regional Centers were required to follow statewide Purchase of Services standards. The budget rejects this proposal, but does adopt a \$52 million unallocated cut to Regional Center services.

## **Mental Health**

**Significant Program Reductions** – The Budget cuts \$10 million General Fund from the Integrated Services for Homeless Adults Program in anticipation of the housing bond passing in November and cuts another \$2 million from the Adult Systems of Care program. In addition, the budget includes significant reductions in children's mental health services, including: a \$13.8 million General Fund reduction in Children's System of Care; a \$5,439,000 reduction in reimbursements to the Department of Mental Health for the EPSDT Program; and a \$150,000 General Fund cut in funding for counties to develop plans for children's mental health services.

## **HUMAN SERVICES**

**Budget Reduces Funding For County Administration** - The budget cuts \$76 million in county administration. Currently the counties receive both State and federal funds to administer a variety of social services programs.

**State "Borrows" \$297 Million from County CalWORKs Performance Incentives** - The budget takes back \$297 million from performance incentive monies allocated to the counties. Under welfare reform, it was agreed that the State would reward the counties for reducing welfare costs as families leave public aid. Counties use these fiscal incentive funds for a variety of purposes, including education improvements, public safety enhancements, as well as other social safety net programs. In January, the Governor took back \$169 million to fund welfare shortfalls. In the May Revision, he proposed to take another \$128 million, for a total of \$297 million. Budget trailer bill language was adopted requiring that these "borrowed" funds be paid back to the counties, but does not specify how or when.

**Counties Bear the Lion's Share of Federal Food Stamp Penalties** - The U.S. Department of Agriculture has fined California \$116 million for errors in the overpayment and underpayment of food stamp benefits. In 2001, California's error rate was 17.4 percent, compared with the national average of 8.7 percent. The Davis Administration indicates that it will continue negotiations with the federal government for penalty relief. However, if unsuccessful, the budget will pass 90 percent of the penalty to the counties totaling \$104 million, with the State picking up 10 percent, or \$12 million. The budget includes new methodologies designed to curtail penalties. However, it's unclear whether this will be successful. And, if California is sanctioned again the following year, how much will be passed on to the counties?

**County Child Support Penalties Eliminated** - The budget includes \$45 million (General Fund) to reflect elimination of the counties' portion of child support penalties. Federal guidelines require that California implement a statewide system to automate the collection and distribution of child support payments. To date, no system is in place and the most optimistic projections are that California will begin its first pilot in the year 2005. Meanwhile, California will be faced with federal penalties every year until the State comes into compliance. In fiscal year 2001-02 alone, the State General Fund will pay \$158 million in federal penalties. In January 2002, the budget assumed that the federal government would waive next year's penalty of \$181 million. The May Revision assumed that penalties will be reduced to \$90 million and required the counties to pay half of the State's penalty, or about \$45 million. The budget funds the entire \$90 million from the State General Fund.

**Budget Weakens County Welfare Fraud Detection/Prevention Efforts** - Currently, counties receive incentive funds from both the State and the federal government to enhance their welfare fraud detection and prevention efforts. The budget cuts \$6.9 million General Fund from this program. At this time, it is unclear how much this reduction will undercut fraud prevention efforts. Any increases in welfare costs resulting from undetected fraud would be borne by local, state and federal governments.

**CalWORKs COLA Provided for One Month** - The budget provides a COLA for one month in the 2002-03 fiscal year at a cost of \$12.5 million, funded from TANF reserves. This action will cost approximately \$150 million in 2003-04 and will likely be funded from the General Fund.

**COLA for SSI/SSP** - The budget proposes to provide a federal COLA (\$54.3 million), and a State COLA for one month (\$22.5 million) in the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program, which provides cash grants to low-income elderly, blind and disabled persons. The cost of this action is \$76.8 million in fiscal year 2002-03 and \$366.5 million in 2003-04.

**Funding for Faith-Based Employment Services** - The budget continues \$4 million in funding for employment services provided by faith-based organizations. This program was initially authorized in fiscal year 2000-01 with a \$5 million appropriation. In 2001-02, the appropriation was reduced to \$4 million.

**Budget Favors Expansion of Bureaucracy over Mitigating Unemployment Insurance Tax Increase** - The budget redirects approximately \$140 million from benefit payments to administration for replacement of a database system; changing the alternate base period; and expanding various other unemployment administration functions. Earlier this year, California received a one-time augmentation of \$937 million from the federal government for unemployment programs. The Employment Development Department estimates that, if this entire federal distribution were to be utilized for unemployment benefits, the unemployment tax hike caused by enactment of SB 40 (Alarcon) could potentially be delayed by one year. Even though the State will be faced with the largest unemployment tax increase in a decade, the budget spends more money on administration rather than bank it for future use in easing the tax burden on employers.

**Another Raid on Employment Training Funds** - The budget pilfers another \$30 million from Employment Training Funds. Last year, Governor Davis siphoned \$61.7 million from employer taxes to fund other employment services under the welfare programs. These taxes were originally intended to help employers provide retraining to their workers who are unemployed. To the extent that these workers are able to obtain other employment sooner, this would reduce the costs of unemployment insurance for these employers. An independent study released in January of this year indicated that approximately 97 percent of re-trained workers in this program returned to work in a year or less. Despite this high rate of re-employment, the budget pilfers another \$30 million from the program, and uses the money to provide employment services for welfare recipients.

**Budget Increases Labor Bureaucracy** - The budget establishes the California Labor and Workforce Development Agency from a redirection of \$1.8 million and 17 positions from other agencies such as the Department of Industrial Relations, the Employment Development Department and the California Workforce Investment Board. It is intended that the new agency would consolidate functions that are currently segregated among various departments. It is unclear whether this consolidation will streamline operations or add yet more bureaucratic procedures. However, creation of new agencies, even those initially funded from redirections, tend to result in increased spending. Examples include:

- *Department of Managed Health Care* -- \$33 million total budget
- *Inspector General for the Youth and Adult Correctional Agency* -- \$10 million total budget
- *Department of Child Support Services* -- \$995 million total budget
- *Office of the Inspector General for Veterans* -- \$0.5 million total budget

**Cash Assistance for Legal Immigrants** - As part of federal welfare reform, food stamp funding was eliminated for legal immigrants who entered the country after August 1996 and who are not naturalized citizens. In response, California implemented its own food stamp program, the California Food Assistance Program (CFAP), and funded it entirely with state General Fund dollars. Due to eligibility expansion and other increases, spending in this area has grown by 35 percent, or \$24 million since 1999, from \$68.7 million to almost to \$93 million.

**Elimination of Emergency Cash Assistance for Elderly and Disabled** - The Special Circumstances program provides emergency cash to low-income elderly and disabled individuals to assist them with a variety of special non-recurring needs such as replacement of household appliances (i.e., refrigerator) and necessary housing repairs (i.e., leaky roof). The budget eliminates this program for a General Fund savings of \$4.5 million.

#### **Subcommittee 4 (Legislative, Executive, Public Safety, & General Government)**

Consultants: Tom Sheehy, Dave Harper

*Dollars in Thousands*

<b>Fund</b>	<b>Governor's Budget As Revised</b>	<b>Legislative Changes</b>	<b>Vetoed</b>	<b>Budget Total</b>
<b>General Fund</b>	\$13,474,389	\$132,281	-\$7,606	\$13,599,064
<b>Special Funds</b>	6,967,019	-52,118	---	6,914,901
<b>Bond Funds</b>	50,159	482	---	50,641
<b>Federal Funds</b>	1,449,108	---	---	1,449,108
<b>Total</b>	\$21,940,675	\$80,645	-\$7,606	\$22,013,714

### **AB 593 ADJUSTMENTS**

The Legislature enacted AB 593 as part of the end-of-session budget resolution. This bill included two major provisions

- **Across-the-Board Reductions.** AB 593 authorizes *but does not require* the Director of the DOF to make unspecified reductions totaling \$750 million from all funds in departmental support budgets. The final budget package assumes that the Director will make reductions totaling \$750 million General Fund. The DOF advises that it intends to achieve as much of these savings as possible. However, due to the timing and interactions with other reductions already taken from departmental support budgets, it is not clear how much of the \$750 million can be achieved as General Fund savings during 2002-03.
- **"Golden Handshake."** AB 593 encourages the Governor to offer an unspecified early retirement package to some unspecified categories of state employees. Despite this uncertainty, the final budget package assumes a General Fund savings of \$285 million will result from this "golden handshake." In fact, it is quite possible that the first-year impact will actually be a slight increase in costs because employees who exercise early retirement will have the option of cashing out accrued leave.

# **PUBLIC SAFETY**

## **Corrections**

**Delano II Prison** - The budget fully funds the continuation of the Delano-II Prison construction project.

**Community Correctional Facilities** - The budget provides funds to continue the operation of the Leo Chesney Center, Baker, Eagle Mountain, McFarland, and Mesa Verde CCF's.

## **Office of Criminal Justice Planning**

**War on Methamphetamine** - The budget includes \$15 million to continue current methamphetamine eradication efforts in the Central Valley.

**Rural Crime Prevention Program** - The budget contains \$3.5 million to fully fund the Rural Crime Prevention Program.

**Vertical Prosecution Programs** - The budget fully funds select vertical prosecution grant programs, including Statutory Rape, Elder Abuse, and Child Sexual Assault.

**High Technology Grants** - The budget includes \$18.5 million to fund another year of law enforcement technology grants, including language requiring minimum grants of \$15,000 to every law enforcement agencies in the state.

# **GENERAL GOVERNMENT**

**Vacant Position Elimination** - The May Revision proposed to eliminate 4,000 vacant positions and recognizes budget year savings of \$10 million in General Fund and \$10 million in special funds. Senate Republicans won a major victory in Conference Committee by increasing the elimination of vacant positions to 6,000 and \$300 million (\$150 million GF).

**Department of Information Technology (DOIT)** - The Governor's May Revision includes a \$2.8 million reduction to the DOIT budget. The budget proposes \$2 million for the Department of Finance to provide services to the Governor's office formerly provided by DOIT.

**Trade and Commerce Agency** (\$27.4 million in reductions) :

- \$10 million unallocated reduction to state operations and local assistance.
- \$2 million reduction to the Biomass Energy Grant Program.
- \$2 million reduction to the Foreign Trade Office Program.
- \$2.566 million reduction to reflect the elimination of the Regional Trade offices.
- \$2.7 million reduction to the Manufacturing Technology Program.
- \$1 million reduction to the Office of Military Base Reuse and Retention program.
- \$1 million reduction to suspend the Next Generation Internet Centers program.
- \$1 million reduction to suspend the Rural e-Commerce Grant Program.
- \$1 million reduction to suspend the Space Industry Development Grant Program.
- \$300,000 reduction to the Film Commission.
- \$239,000 reduction to the Office of Foreign Investment.
- \$400,000 reduction to the Office of Export Development.
- \$627,000 reduction to the Marketing and Communications Division.
- \$803,000 reduction to the Division of Science, Technology and Innovation.
- \$538,000 reduction to Business Development Support.

- \$500,000 reduction to eliminate the Defense Adjustment Matching Program.
- \$226,000 reduction to eliminate the Office of Permit Assistance.
- \$448,000 reduction to eliminate the Economic Development Support program.
- \$89,000 reduction to eliminate the Regulation Review Unit.

In addition to the reductions, suspensions, and eliminations, the budget transfers or loans \$27.1 million from various Trade and Commerce Agency funds to the General Fund.

**Secretary of State** - \$950,000 reduction to the operations of the Secretary of State (SOS). This reduction is to activities that will not affect the election-related functions of the SOS.

**Department of Insurance** - \$1.8 million reduction to the Department of Insurance to reflect a transfer of funding to support the Premium Tax Program.

#### **State Controller's Office:**

- A \$1.073 million augmentation for the increased cost of processing and mailing warrant and remittance advice documents.
- A \$1.064 million augmentation for the Unclaimed Property Amnesty Program.

#### **Franchise Tax Board:**

- An augmentation of \$3.78 million and 51 positions to increase tax collection activities.
- An augmentation of \$3.3 million and 41 positions to allow the FTB to implement a tax amnesty program.
- An augmentation of \$799,000 and 14 positions to expand the Integrated Non-Compliance Project.
- An augmentation of \$520,000 and 4 positions to reduce the tax settlement backlog.

#### **California Arts Council:**

The CAC budget includes the following:

- \$575,000 reduction to the CAC support budget operations.
- \$9 million reduction to the CAC local assistance budget.
- \$759,000 reduction to the Challenge Grant Program.
- \$2 million appropriation for the Simon Wiesenthal Center.

#### **Military Department**

- **Turning Point Academy** - The budget eliminates all funding for the Turning Point Academy. In addition, the conference Committee failed to adopt trailer bill language extending the sunset of this program past June 30, 2002.

#### **Department of Agriculture**

- **Red Imported Fire Ants** - The budget includes \$5.9 million for the Red Imported Fire Ants program. This represents a \$3 million reduction, or 34 percent, over the prior-year funding for this program. This reduction reflects a redirection of \$2.3 million from the Department of Forestry and Fire Protection's Sudden Oak Death Syndrome program.

## LOCAL GOVERNMENT

**ERAF** - The budget includes savings of \$75 million by requiring redevelopment districts to contribute to the Educational Revenue Augmentation Fund (ERAF).

**Williamson Act** - The final version of the budget includes full funding of the Williamson Act subventions to local governments for a total of \$39 million.

**Mandates** - The budget includes a \$30 million reduction in the current year and approximately \$160 million in the budget year for payments to local governments for state mandated programs. In addition, the budget includes budget bill language is adopted that will save an additional \$17.8 million in existing balances for various past mandate claims that have not been paid. **In total, the budget will reduce payments to local governments for mandated costs of \$238.1 million.** The Administration is NOT proposing to suspend or eliminate these mandates, but rather, to suspend the payments to some future date. The Conference Committee adopted a trailer bill that makes minor changes to the mandate process in an attempt to control future mandate costs.

**Booking Fees** - The budget includes \$38.2 million to continue the reimbursement to City Police Chiefs for their costs of booking people into county jails.

**COPS / Juvenile Justice** - The budget includes \$232 million to fully fund the COPS/Juvenile Justice Program.

### Summary of Local Government Reductions and Shifts

\$289 million -- County Welfare Performance Incentives
\$105 million – County Health and Welfare Administration
\$246 million – Suspend State Mandate Payments
\$75 million community redevelopment ERAF
<b><i>Total = \$715 million</i></b>

# Senate Republican Fiscal Office

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